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CHANGES IN GENERAL REVENUES AND EXPENDITURES OF NEBRASKA GOVERNMENTS

This article examines nearly two decades of change in general revenues and expenditures for the sum of Nebraska's state and local governments and for the national government. To account for the impacts of inflation and changes in income (a rough indication of the ability to pay) and to allow relative comparison, revenues and expenditures are expressed as values per $1000 personal income. The results are presented in Figures 1-4 on pages 2 and 3. The sources for these data are the U.S. Bureau of the Census, *Governmental Finances in 1982-1983* and comparable publications for previous years.

General Revenues

Upon examination of these figures, a general pattern emerges for both Nebraska and the United States. Both expenditures and revenues grew rapidly during the late 1960s and early 1970s, fluctuated and peaked in the mid 1970s, and fell during the late 1970s and early 1980s. Even though the overall trends were similar, there were differences. Because of the smaller base, Nebraska's charts are much more volatile than those of the United States. Moreover, not all revenue or expenditure series exhibited the same pattern--some steadily declined while others steadily rose.

General revenues come from two main sources--intergovernmental transfers from the federal government and state or local governments' own sources. These own sources are comprised of taxes (property, sales, individual and corporate income, and others), current charges for hospitals, education, etc., and miscellaneous revenues such as interest earnings. Figures 1 and 2 review some of the components of general revenues, and show that historically Nebraska's governments have been more reliant on property taxes than on intergovernmental transfers, general sales taxes, and income taxes compared to the national average.

The charts show that Nebraska's general revenues amounted to $145 per $1000 personal income during fiscal year 1965-66. They rose steadily until 1971-72, then dropped sharply in 1973-74 as personal income was pushed upward at a faster rate than revenues by increases in farm exports. Revenues peaked at $206 per $1000 personal income in 1976-77 (a period of slow growth in income), gradually declined until their sharp drop in 1981-82, then increased to their current level of $192 per $1000 personal income. 1982-83 also represented a period of slow growth in personal income. The lesson to be learned from this exercise is that year-to-year changes are subject to a variety of forces and should be viewed with caution. The purpose of these charts in Figures 1-4 is to discern longer term trends rather than to explain year-to-year fluctuations.

Since more than 80 percent of Nebraska governmental revenues come from their own (Nebraska) sources, it is not surprising that this component of revenue closely follows the movement of general revenues. Therefore, it would be more propitious to review taxes. Before examining the trend in Nebraska taxes, it is necessary to briefly review a history of the laws pertaining to them.

In 1966, voters approved a constitutional amendment abolishing the property tax as a source of revenue for the state government. The Revenue Act of 1967 adopted sales and income taxes to replace property taxes. The 1969 Legislature enacted a homestead exemption law. Since that time, increasing numbers of property classes have been declared exempt from property taxes. Legislation in 1972 provided for partial exemption of agricultural income-producing machinery and equipment, business inventories, livestock, grain and seed, and poultry, fish, and fur bearing animals. The size of the exemption increased annually between 1973 and 1977. Successive legislatures totally exempted all of the above items except business inventories and livestock in 1978; business inventories were totally exempted in 1979; and total livestock exemptions followed in 1980. At the same time, legislatures have appropriated some measure of funding to replace revenues lost by property tax exemptions each fiscal year since 1978-79.

Even with the above changes, total taxes followed a pattern similar to general revenues, although over a much smaller range. They began at $93 per $1000 personal income in 1965-66, and stood at $106 in 1982-83, peaking at $126 in 1976-77. Property taxes, on the other hand, have fallen since 1965. In fiscal 1965-66 property taxes stood at $67 per $1000 personal income. By 1982-83 these taxes had dropped to $44 per $1000 personal income. It is difficult to observe the effect of the various exemptions on individual years because of previously mentioned changes in income and because local government might have shifted the burden to other classes of property. Two things are certain, however; first, relative property taxes have decreased by 1/3 between fiscal 1965-66 and fiscal 1982-83; and second, this decline has been highly concentrated in selected classes of property.

Although sales and income taxes were not reported separately in the census publications until 1972-73, it requires little imagination to visualize their rapid growth from their inception in 1968 until fiscal 1972-73. During the period fiscal 1972-73 to fiscal 1982-83, Nebraska has consistently relied more heavily on sales

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taxes than on income taxes. Sales taxes went from $18 per $1000 personal income in 1972-73 to $23 per $1000 personal income in 1982-83. Over the same period income taxes rose from $15 to $19 per $1000 personal income. With the elimination of sales

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Figure 1
Revenues of Nebraska State and Local Governments,
Fiscal 1965-66 to Fiscal 1982-83
(Per $1000 Personal Income)

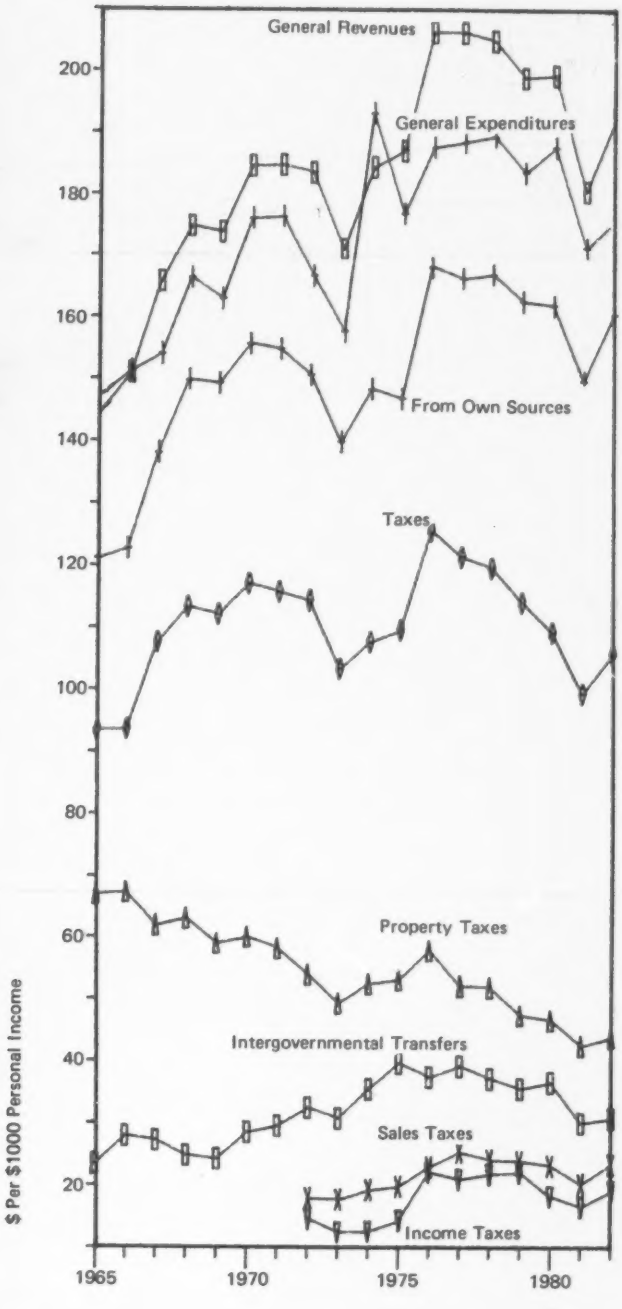
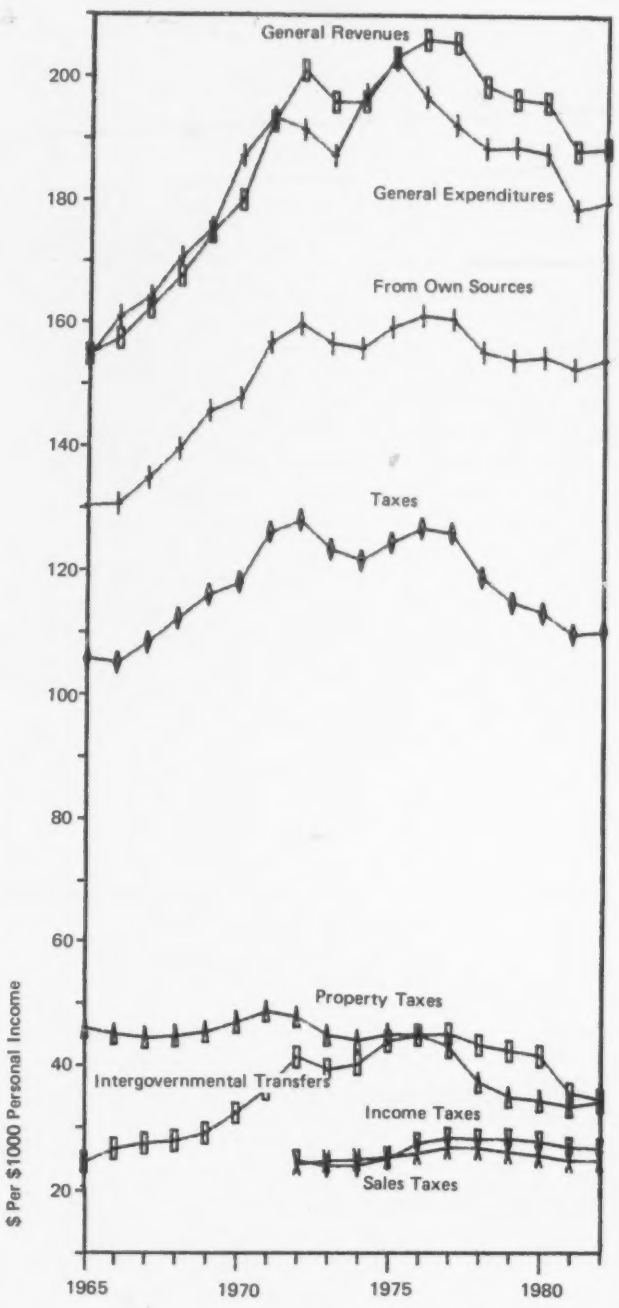


Figure 2
Revenues of U.S. Governments
Fiscal 1965-66 to Fiscal 1982-83
(Per $1000 Personal Income)



Source for Figures 1-4: U.S. Bureau of the Census, *Governmental Finances in 1982-1983* and comparable publications for previous years.

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taxes on food for home use, it is likely that in future years the relative positions of sales and income taxes will switch.

Another major source of revenues for Nebraska governments has been transfers from the federal government. Throughout the period under analysis, transfers have been larger than either sales or income taxes, starting at $24 per $1000 personal income in 1965-66, nearing the $40 mark in 1975-76, and falling to $31 per $1000 personal income in 1982-83. If these transfers from the federal government are cut in future years, Nebraska's revenues could be reduced or the structure changed significantly. This, coupled with additional property tax exemptions, will place increasing pressure on sales and income taxes.

General Expenditures

Because revenues eventually are spent by governments, trends in expenditures may provide further insight. Total expenditures can be found in Figures 1 and 2. For Nebraska, general expenditures were almost always less than geveral revenues–1977-78 was the only exception. For the U.S., however, general revenues exceeded expenditures mainly since the late 1970s. The plots of classes of expenditures can be found in Figures 3 and 4. U.S. and Nebraska expenditures exhibited trends similar to revenues. Generally expenditures grew during the late 1960s and early

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Figure 3
Expenditures of Nebraska State and Local Governments
Fiscal 1965-66 to Fiscal 1982-83
(Per $1000 Personal Income)

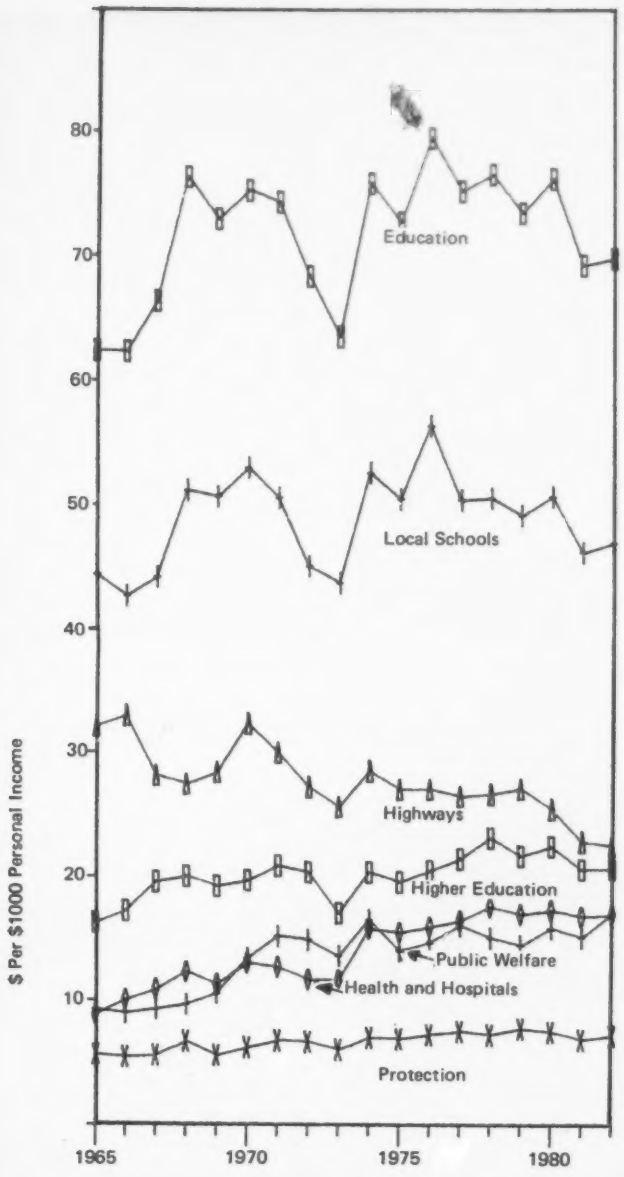
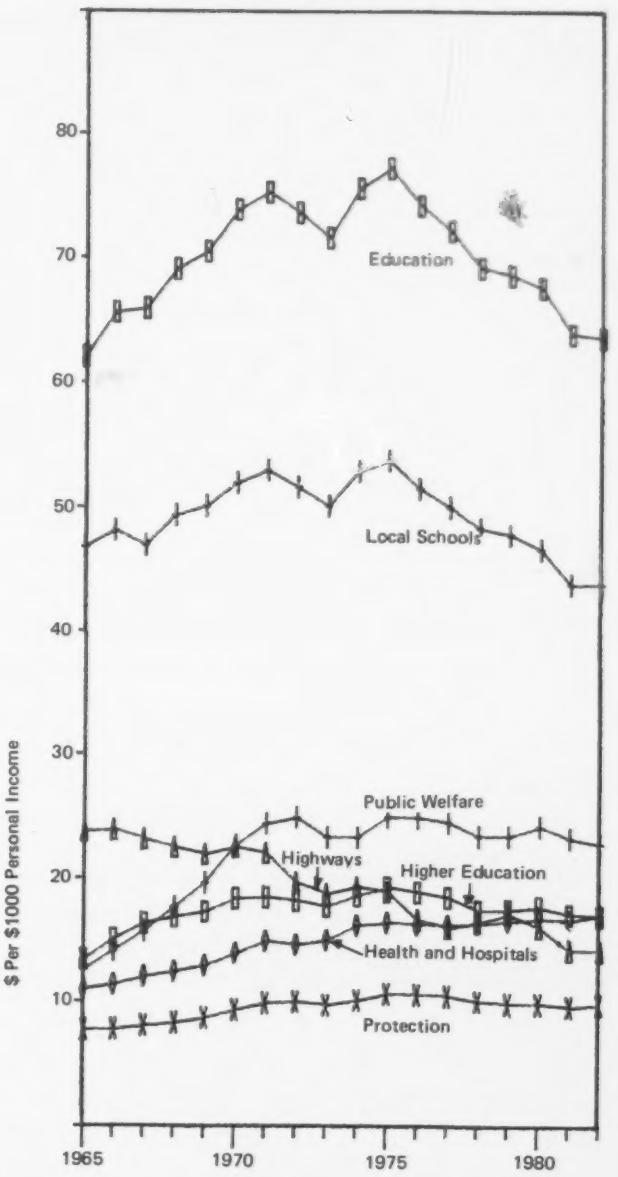


Figure 4
Expenditures of U.S. Government
Fiscal 1965-66 to Fiscal 1982-83
(Per $1000 Personal Income)



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1970s and then leveled or declined slightly. Current levels remain above those of 1965-66.

Figures 3 and 4 present some of the major expenditure categories. These categories show that, compared to the national average, Nebraska governments spent more on education (both for local schools and for higher education) and on highways. On the other hand, Nebraska governments spent less on public welfare and police and fire protection.

Expenditures for education in Nebraska is the major component of general expenditures, averaging 35-40 percent of the total. These expenditures have been subject to considerable review in recent years as schools have been faced with declining enrollments. The 1982-83 value of $70 per $1000 personal income is higher than the $62 figure reported in 1965-66 and lower than the 1976-77 high of $79 per $1000 personal income, suggesting a downswing in the relative expenditures for education in Nebraska. The comparable graph for the U.S. shows a more pronounced downward movement since its peak in 1975-76. In fact, the fiscal 1982-83 value of $64 per $1000 personal income is the lowest since 1965-66.

Nebraska's local school expenditures in fiscal 1982-83 stood at $47 per $1000 personal income, down from its 1976-77 peak of $56 per $1000 personal income. Relative local school expenditures at the national level have fallen more dramatically than for Nebraska, as the fiscal 1982-83 value of $44 per $1000 personal income is lowest during the time period under review.

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

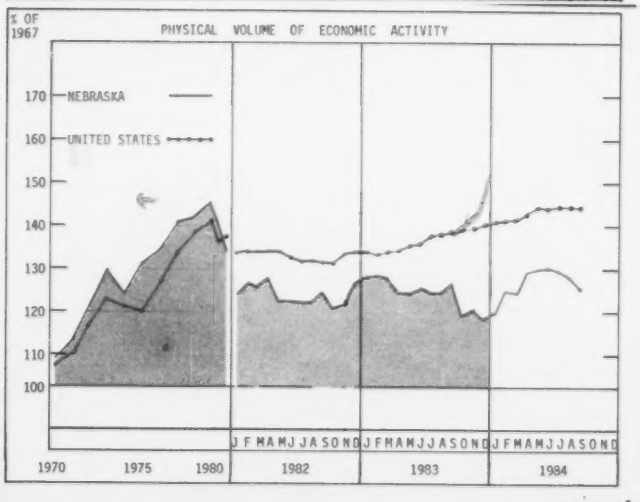
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

Indicator	Current Month as Percent of Same Month Previous Year		1984 Year to Date as percent of 1983 Year to Date	
	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	102.4	108.4	105.1	110.2
Agricultural	82.5	95.5	89.0	96.2
Nonagricultural	105.1	108.7	107.7	110.6
Construction	104.9	110.2	125.9	118.5
Manufacturing	105.3	107.4	114.4	113.6
Distributive	103.6	109.5	103.3	109.8
Government	110.9	106.8	112.9	106.6
Physical Volume	98.6	104.4	100.6	105.8
Agricultural	82.5	93.6	85.6	89.7
Nonagricultural	101.1	104.7	103.2	106.3
Construction	101.6	106.7	121.6	114.5
Manufacturing	103.6	105.7	111.2	110.6
Distributive	99.4	105.1	99.0	105.3
Government	103.6	100.6	104.4	100.5

2. CHANGE FROM 1967

Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	326.6	426.2
Agricultural	265.0	309.8
Nonagricultural	377.2	429.9
Construction	299.0	413.4
Manufacturing	369.1	322.6
Distributive	378.0	490.4
Government	436.2	433.8
Physical Volume	125.1	144.1
Agricultural	106.4	122.4
Nonagricultural	127.8	144.8
Construction	85.9	118.8
Manufacturing	149.0	127.4
Distributive	120.2	155.9
Government	155.1	149.1

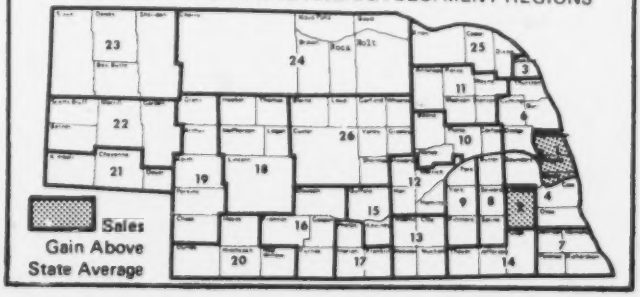


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number[1] and City	City Sales[2]	Sales in Region[2]	
	Sept. 1984 as percent of Sept. 1983	Sept. 1984 as percent of Sept. 1983	'84 to date as percent of '83 to date
The State	106.1	105.1	109.0
1 Omaha	119.2	116.2	116.0
Bellevue	125.1		
Blair	93.5		
2 Lincoln	111.1	108.8	112.6
3 So. Sioux City	130.7	110.2	106.1
4 Nebraska City	90.9	90.4	98.5
6 Fremont	103.5	95.8	99.0
West Point	82.8		
7 Falls City	86.4	91.5	95.1
8 Seward	103.8	98.6	101.0
9 York	95.5	93.1	101.8
10 Columbus	101.9	94.7	99.8
11 Norfolk	105.4	98.4	98.5
Wayne	87.4		
12 Grand Island	105.4	101.5	103.8
13 Hastings	103.9	98.3	102.7
14 Beatrice	94.3	89.9	95.3
Fairbury	86.8		
15 Kearney	95.7	94.3	104.2
16 Lexington	99.5	92.3	96.4
17 Holdrege	109.4	95.0	98.0
18 North Platte	94.3	96.8	100.5
19 Ogallala	92.5	86.7	100.9
20 McCook	98.5	94.0	98.5
21 Sidney	93.1	98.0	103.6
Kimball	106.2		
22 Scottsbluff/Gering	90.0	89.6	100.0
23 Alliance	92.3	91.0	98.4
Chadron	90.6		
24 O'Neill	104.7	92.4	94.3
25 Hartington	88.6	87.4	90.2
26 Broken Bow	91.6	86.7	92.6

[1] See region map below.
[2] Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1984 YEAR TO DATE AS PERCENT OF 1983 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



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Higher education expenditures in Nebraska also have declined in relative terms recently. Spending for higher education grew rapidly during the late 1960s, leveled for ten years, and peaked two years later than local schools at $23 per $1000 personal income. In fiscal 1982-83, expenditures amounted to $21 per $1000 personal income.

The remaining spending categories in Figures 3 and 4 have exhibited fairly stable trends. Highway expenditures have been the major loser in relative terms. In 1965-66 Nebraska government spent $32 per $1000 personal income but, after 17 years of general decline, in 1982-83 they spent $23 per $1000 personal income. The expenditure categories which showed the most significant growth were public welfare and health and hospitals. Both began in 1965-66 at $9 per $1000 personal income and finished at $17 per $1000 personal income in 1982-83, even though they traveled somewhat different paths to reach their current levels.

Summary

Total general revenues per $1000 personal income for Nebraska's state and local governments peaked in fiscal 1976-77, with 1982-83's value seven percent below the high. Relative taxes also peaked in 1976-77, but the comparable measure for fiscal 1982-83 was sixteen percent lower. Since 1965-66 property taxes have declined in relative importance. They exhibited a period of growth between 1973 and 1977, but as classes of property became totally exempt, property taxes continued their general decline in 1978.

The effect of the decline of property taxes was twofold. First, sales and income tax and other sources of revenue became relatively more important. Second, the benefits of declining property taxes per $1000 personal income were probably distributed in favor of those taxpayers owning exempted property. The remaining taxpayers may have received little, if any, benefit.

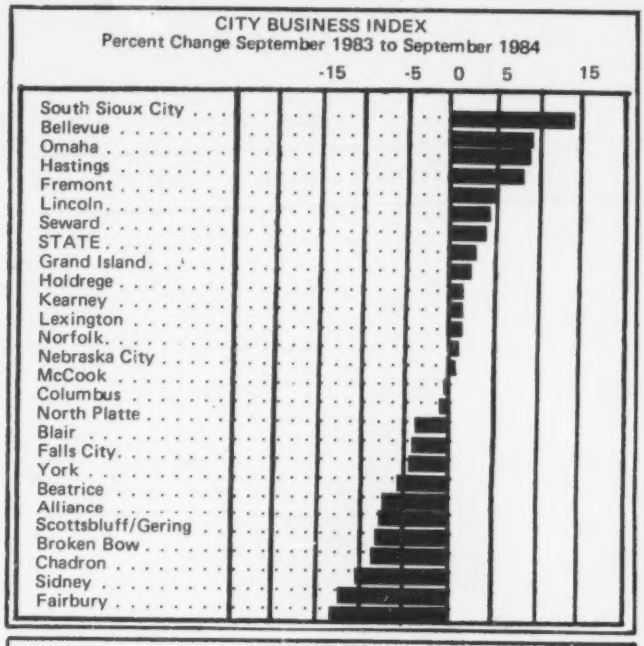
Total general expenditures per $1000 personal income peaked later than revenues (1978-79) and fell faster. In 1982-83, relative general expenditures were nine percent below their peak. Expenditures for education (all levels) and highways declined per $1000 personal income, and relative expenditures for public welfare and health and hospitals rose. The most significant growth was recorded by these last two categories. Expenditures per $1000 personal income for both grew approximately 90 percent between 1965-66 and 1982-83.

JEROME A. DEICHERT

5. PRICE INDEXES

September 1984	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	314.5	104.2	104.3
Commodity component	282.3	102.8	103.6
Wholesale Prices	309.5	101.4	102.8
Agricultural Prices			
United States	253.0	102.0	107.2
Nebraska	249.0	100.0	104.1

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.



4. CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	99.9	117.6	95.9
Alliance	97.5	64.2	114.7
Beatrice	99.1	49.6	95.8
Bellevue	99.9	85.9	86.4
Blair	99.0	100.7	100.0
Broken Bow	99.7	46.3	88.3
Chadron	108.5	16.3	104.7
Columbus	99.6	98.9	98.7
Fairbury	99.9	25.6	101.9
Falls City	99.0	177.3	95.6
Fremont	99.4	262.0	86.1
Grand Island	99.1	119.2	104.9
Hastings	99.7	44[illegible].9	88.8
Holdrege	98.8	72.3	69.9
Kearney	101.8	186.1	95.5
Lexington	99.4	165.0	101.6
Lincoln	100.7	98.1	93.7
McCook	98.1	170.7	86.4
Nebraska City	99.2	330.9	85.1
Norfolk	99.3	91.3	100.1
North Platte	100.7	83.5	87.1
Omaha	99.9	137.9	97.7
Scottsbluff/Gering	99.2	65.4	101.5
Seward	99.9	175.3	94.1
Sidney	98.0	23.6	102.1
So. Sioux City	98.7	157.6	97.4
York	99.5	66.0	117.3

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

The University of Nebraska-Lincoln, College of Business Administration,
Bureau of Business Research, and Department of Conferences and Institutes present

NEBRASKA ECONOMIC OUTLOOK FOR 1985

Friday, January 25, 1985
Noon-1:15 p.m.
Nebraska Center For Continuing Education

At this forum, Donald E. Pursell and Thomas S. Zorn will explain and explore the 1985 economic outlook for Nebraska based on data compiled at the Bureau of Business Research, University of Nebraska-Lincoln.

The event will be held at the Nebraska Center for Continuing Education, 33rd and Holdrege Streets, Lincoln, Nebraska on Friday, January 25, 1985 at noon. Cost is $10 per person. For reservations, contact the University of Nebraska-Lincoln Department of Conferences and Institutes, 205 Nebraska Center, Lincoln, Nebraska 68583-0929, telephone 402/472-2844.

Thomas S. Zorn is Assistant Professor of Finance at the University of Nebraska-Lincoln. Professor Zorn has taught at the University of Arizona, California State University at Fullerton, and California State University at Northridge. He has published papers in *Journal of Finance, Economic Inquiry, Quarterly Journal of Business and Economics,* and other journals.

Professor Zorn holds a Ph.D. in economics from the University of California at Los Angeles. His research interests include the impact of information upon markets, banking, and the impact of managerial incentives. In 1973 Professor Zorn completed a study on gambling for the Hudson Institute. His experience gives him a keen insight into the problems and prospects for the United States economy.

Dr. Donald E. Pursell, Director of the College of Business Administration's Bureau of Business Research, holds a doctorate in economics from Duke University. Dr. Pursell joined the University of Nebraska-Lincoln in 1976 and has served as Director of the Bureau and Professor of Business Administration since that date.

Dr. Pursell's academic work has focused on labor economics and demographic issues. He has served as an expert on population and income estimation for the National Academy of Sciences and the Ford Foundation. He is a member of the city of Lincoln's Economic Development Commission and works with communities on economic development issues.

Dr. Pursell's current research interests are centered on the impact of the distorted U.S. age structure resulting from the post-World War II baby boom. Dr. Pursell's views on the labor force were presented to the U.S. House of Representatives Select Committee on Aging recently.

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